82-1418
No.



# In the Supreme Court of the United States

OCTOBER TERM, 1982

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**CHAPMAN INDUSTRIES CORP.,**

*Petitioner,*

v.

**N.A. SALES COMPANY, INC.,**

*Respondent.*

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## PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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## QUESTIONS PRESENTED

1. Whether a trial court's holding that it is not bound by a jury's verdict on an issue common to both legal and equitable claims violates the seventh amendment right to a jury trial?

2. Whether a trial court's rejection of a specific jury verdict that a party materially breached an agreement, on the ground that materiality could be decided as a "matter of law," but without application of the standard necessary for entry of judgment notwithstanding the verdict, violates the seventh amendment right to a jury trial?

3. Whether a federal trial court should be permitted to submit a case to a jury, wait until the jury has returned its verdict, and then, if the court disagrees with the verdict but cannot, based upon the evidence, enter judgment notwithstanding the verdict, determine under Fed. R. Civ. P. 39(a) that the right to a jury trial never existed?

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The petitioner, Chapman Industries Corp., respectfully prays that a Writ of Certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Second Circuit entered in this proceeding on November 22, 1982.

## OPINIONS BELOW

The opinion of the Court of Appeals, not yet reported, appears as Appendix A. The Memorandum of Decision and Order of the District Court for the Eastern District of New York, from which appeal was taken, appears as Appendix B.

## JURISDICTION

The judgment of the Court of Appeals for the Second Circuit was entered on November 22, 1982. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

## CONSTITUTIONAL PROVISIONS AND FEDERAL RULES OF CIVIL PROCEDURE INVOLVED

### Amendment VII to the United States Constitution

In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

### Fed. R. Civ. P. 38

(a) The right of trial by jury as declared by the Seventh Amendment to the Constitution or as given by a statute of the United States shall be preserved to the parties inviolate.

(b) Any party may demand a trial by jury of any issue triable of right by a jury by serving upon the other parties a demand therefor in writing at any time after the commencement of the action and not later than 10 days after the service of the last pleading directed to such issue.

Such demand may be indorsed upon a pleading of the party.

(c) In his demand a party may specify the issues which he wishes so tried; otherwise he shall be deemed to have demanded trial by jury for all issues so triable. . . .

**Fed. R. Civ. P. 39**

(a) When trial by jury has been demanded as provided in Rule 38, the action shall be designated upon the docket as a jury action. The trial of all issues so demanded shall be by jury, unless (1) the parties or their attorneys of record, by written stipulation filed with the court or by an oral stipulation made in open court and entered in the record, consent to trial by the court sitting without a jury or (2) the court upon motion or of its own initiative finds that a right of trial by jury of some or all of those issues does not exist under the Constitution or statutes of the United States.

* * *

(c) In all actions not triable of right by a jury, the court upon motion or of its own initiative may try any issue with an advisory jury or, except in actions against the United States when a statute of the United States provides for trial without a jury, the court, with the consent of both parties, may order a trial with a jury whose verdict has the same effect as if trial by jury had been a matter of right.

## STATEMENT OF THE CASE

On January 7, 1981, respondent N.A. Sales Company, Inc. ("N.A. Sales") filed a two count complaint against petitioner, Chapman Industries Corp. ("Chapman"), and two of its officers in the United States District Court for

the Eastern District of New York. (App. C.)[1] The jurisdiction of the district court was invoked under 28 U.S.C. § 1332 because of diversity of citizenship, the plaintiff being a citizen of New York and the defendants citizens of Illinois.

Count I of the complaint alleged breach of an exclusive distributorship agreement for the sale of automotive anti-theft devices.[2] Count II alleged that Chapman's officers had induced the breach. N.A. Sales sought compensatory damages in the amount of $5,000,000 as well as a preliminary injunction *pendente lite* requiring Chapman to continue shipping its products as required under the agreement. In addition, N.A. Sales prayed that it be "granted such other, further or different relief as the Court shall deem just, proper and equitable." (App. C at 33.)

After the district court dismissed Count II of N.A. Sales' complaint, Chapman filed its answer and counterclaim to Count I. (App. D.) Chapman denied the material allegations of the complaint and interposed several affirmative defenses including, *inter alia*, an allegation that N.A. Sales had breached the agreement by "fail[ing] to use its best

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[1] Petitioner Chapman Industries Corp. is incorporated in the State of Illinois. Petitioner's parent is Chapman Performance Products, Inc., an Illinois corporation. The following corporations are affiliated with petitioner or its parent: Advance Productions Forms, Inc., an Illinois corporation; Performance Security Corp., an Illinois corporation; Alarm King, Inc., an Illinois corporation; International Commercial Leasing, Inc., an Illinois corporation; and Alarm King of Florida, Inc., a Florida corporation.

[2] The agreement, dated March 23, 1972, established a twenty-year exclusive distributorship ending in 1992 for the patented Chapman

(footnote continued)

efforts to promote the sale of defendant's goods." (App. D at 45.)

In addition to its affirmative defenses, Chapman asserted a four count counterclaim, alleging, in Count I, that N.A. Sales had "materially breached the Agreement and caused Chapman to sustain money damages." (App. D at 45.) The other counts of the counterclaim alleged misrepresentation, deceptive trade practices, unfair competition and trademark infringement. As relief, Chapman sought to have N.A. Sales' complaint dismissed and, with respect to its counterclaim, judgment against N.A. Sales in the amount of $603,000 in compensatory damages and an order declaring the agreement terminated and null and void. Chapman filed a timely demand for a jury trial pursuant to Fed. R. Civ. P. 38(b) on the face of its answer and counterclaim.

The district court commenced trial on the complaint and counterclaim in December 1981. The trial lasted eleven court days. At the close of the proof, the court submitted to the jury eleven special interrogatories.

The jury found in Special Verdict No. 1 that Chapman had breached the distributorship agreement in certain respects, and in Special Verdict No. 11, that N.A. Sales had used its best efforts in the sale and distribution of the Kar-Lok device. In Special Verdict No. 10, however, the jury found that N.A. Sales had also breached the agree-

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(footnote continued)

"Kar-Lok" security device and "all other (other than the Chapman Kar-Lok) automotive, vehicular or motorcycle anti-theft device of any nature or type produced by [Chapman]" in "an area encompassed in a fifty-mile radius from the Empire State Building as well as Suffolk County [N.Y.] in its entirety." (App. C at 35-36.)

ment by not using its "best efforts" in selling the entire line of Chapman products of which it was the exclusive New York distributor, that this breach was "substantial and material," and that it had not been waived by Chapman.

After trial and the return of the special verdicts, the trial court indicated his view that the issue of N.A. Sales' "failure to use best efforts" related only to those counts of Chapman's counterclaim alleging unfair competition and trademark infringement. (App. B at 15-16.) Because he felt he could enter a directed verdict on the damage claims in those counts, the trial court concluded those counts were exclusively equitable in nature and should not have been submitted to the jury. (App. B at 16-17.) He thereupon treated the jury's findings on the "best efforts" issue as "advisory," pursuant to Fed. R. Civ. P. 39(c), and rejected them, substituting his own contrary findings in favor of N.A. Sales. (App. B at 17.) He did not purport to apply the standard necessary under Fed. R. Civ. P. 50 to enter a judgment notwithstanding the verdict.

The trial court did not address the fact that Chapman raised the "best efforts" issue not only in its counterclaim, but also as an affirmative defense to N.A. Sales' complaint. The trial court conceded that the complaint was comprised of claims at law. (App. B at 21-22.) In fact, the trial court specifically stated that, so far as N.A. Sales' complaint was concerned, he was bound by the jury verdict in favor of N.A. Sales and would abide by it. (App. B at 22.)

The district court awarded N.A. Sales judgment in the amount of $124,000 and entered a declaratory judgment defining certain terms of the agreement and a mandatory

injunction requiring Chapman to perform all the agreement's terms and conditions until its expiration in 1992. The district court further enjoined Chapman from selling any of its automotive anti-theft devices to any entity doing business within N.A. Sales' exclusive area of distribution.

Chapman appealed to the United States Court of Appeals for the Second Circuit, arguing, *inter alia,* that the district court had committed reversible error in disregarding Special Verdict No. 10 and that Chapman's right to a jury trial had been denied.

On November 22, 1982, the Second Circuit affirmed the judgment of the district court. The only issue the court discussed in its opinion was "whether the judge erred in holding that he was not bound by the jury's finding that N.A. Sales did not use its best efforts in the sale and distribution of Chapman products." (App. A at 4.) However, the Court of Appeals found it "unnecessary to resolve this question because on this record Judge Mishler's refusal to find that N.A. Sales did not [sic] substantially and materially breach the agreement was correct as a matter of law." (App. A at 4-5.) The court reasoned that, despite the jury's explicit finding that N.A. Sales' breach was substantial and material, N.A. Sales' failure to use its best efforts to sell and distribute Chapman products was, as a matter of law, "not a sufficiently significant breach to justify termination of the distributorship." (App. A at 5.) Like the district court, the Court of Appeals did not address the fact that the "best efforts" issue was raised as an affirmative defense to N.A. Sales' complaint for damages, nor did it purport to apply the standard necessary to enter judgment notwithstanding the verdict.

## REASONS FOR GRANTING THE WRIT

### I.

### THE DECISIONS OF THE COURTS BELOW DEPRIVED PETITIONER OF ITS SEVENTH AMENDMENT RIGHT TO A JURY TRIAL, CONSTITUTE A SIGNIFICANT DEPARTURE FROM THIS COURT'S REPEATED RULINGS ON THE RIGHT TO A JURY TRIAL, AND DIRECTLY CONFLICT WITH DECISIONS OF OTHER CIRCUITS.

This Court's grant of certiorari is necessary not only because the decisions below were plainly wrong and create a direct split among the circuits. Certiorari is necessary primarily because the erroneous decisions below infringed a fundamental constitutional right—the right to trial by jury.

By ignoring the jury's definitive finding that N.A. Sales had materially breached its exclusive distributorship agreement, the courts below denied Chapman its right to a jury trial. Both the district court and the court of appeals, albeit by different devices, usurped to themselves the jury's exclusive right to decide this case. Both the devices and their cumulative effect were error and circumvented this Court's established precedents. As this Court has held:

> [N]either we nor the Court of Appeals can redetermine facts found by the jury any more than the District Court can predetermine them. For the Seventh Amendment says that "no fact tried by a jury shall be otherwise reexamined in any Court of the United States, than according to the rules of common law."

*Atlantic & Gulf Stevedores, Inc.* v. *Ellerman Lines, Ltd.*, 369 U.S. 355, 358-59 (1962).

In its landmark decision in *Beacon Theatres, Inc.* v. *Westover*, a mandamus action, this Court stated that it had granted certiorari because "[m]aintenance of the jury as a fact-finding body is of such importance and occupies so firm a place in our history and jurisprudence that any seeming curtailment of the right to a jury trial should be scrutinized with the utmost care." 359 U.S. 500, 501 (1959) *quoting Dimick* v. *Schiedt*, 293 U.S. 474, 486 (1935).

Review by this Court is necessary here in order to prevent inroads against this prized constitutional right.

**A. The District Court's Holding That It Was Not Bound By A Jury's Factual Finding On An Issue Common To Legal And Equitable Claims Directly Contravenes This Court's Rulings in Beacon Theatres, Inc. v. Westover And Its Progeny.**

The district court disregarded the jury's finding that N.A. Sales had materially breached its distributorship agreement by failing to use its best efforts to market Chapman's entire line of products. In doing so, the district court did not apply the rigorous standard for entry of a judgment notwithstanding the verdict. Instead, the court held, after the fact, that the "best efforts" issue had related solely to equitable aspects of Chapman's counterclaim and that no right to a jury trial had existed on the issue.[3] The issue of N.A. Sales' "best efforts," however, undisputedly was also raised as an affirmative defense by Chapman to N.A. Sales' complaint, which plainly stated claims at law. (App. D at 45.) The district court ex-

[3] Chapman's counterclaim stated claims at law as well as equitable claims. Indeed Chapman sought money damages because of N.A. Sales' failure to use its best efforts. (App. D at 45.) The district court evaded the jury's verdict on the best efforts issue by finding that Chapman failed to prove its damages at trial, a decision Chapman also deems plainly erroneous.

pressly recognized the legal nature of N.A. Sales' complaint when it deemed other jury findings concerning the complaint controlling. (App. B at 22.)

The trial court's decision to deny Chapman's right to have the jury decide factual issues that related both to legal and equitable claims violated decades of consistent precedent from this Court. As this Court explicitly held in *Ross* v. *Bernhard*, 396 U.S. 531 (1970): "[W]here equitable and legal claims are joined in the same action, there is a right to jury trial on the legal claims which must not be infringed either by trying the legal issues as incidental to the equitable ones or by a court trial of a common issue existing between the claims." 396 U.S. at 537-38 *citing Beacon Theatres, Inc.* v. *Westover*, 359 U.S. 500 (1959).

Likewise, in *Dairy Queen, Inc.* v. *Wood*, 369 U.S. 469, 472-73 (1962), this Court stated: "The holding in *Beacon Theatres* . . . applies whether the trial judge chooses to characterize the legal issues presented as 'incidental' to equitable issues or not. . . . *Beacon Theatres* requires that any legal issues for which a trial by jury is timely and properly demanded be submitted to a jury." *See also Curtis* v. *Loether*, 415 U.S. 189, 196 n.11 (1974) ("[I]f . . . [a] legal claim is joined with an equitable claim, the right to jury trial on the legal claim, including all issues common to both claims, remains intact.")

The district court here sought to evade these clear precedents by characterizing Chapman's "best efforts" evidence as having been submitted in support only of Chapman's equitable counterclaims, when it unquestionably was common to N.A. Sales' own claims at law. The best efforts issue was at the heart of Chapman's affirma-

tive defense to N.A. Sales' breach of contract claim.[4] The district court's device deprived Chapman of its seventh amendment right to a jury trial on that claim.

**B. The Court Of Appeals Compounded The District Court's Error When, Without Purporting To Apply The Standard Necessary To Enter A Judgment Notwithstanding The Verdict, It Held That The Materiality Of The Breach Issue Could Be Determined As A "Matter Of Law," A Ruling Which Is In Direct Conflict With A Recent Decision Of The Court Of Appeals For The Fifth Circuit.**

The Court of Appeals in this case, instead of correcting the district court's serious departure from settled constitutional protections of trial by jury, compounded the district court's error and created a direct conflict with a recent decision of the Fifth Circuit Court of Appeals on the right to jury trial.

The Second Circuit ruled that "it [was] unnecessary to resolve" the issue of "whether the judge erred in holding that he was not bound by the jury's finding that N.A. Sales did not use its best efforts" in performing the agreement, because N.A. Sales' breach was not substantial and material "as a matter of law." (App. A at 4-5.) Thus the Second Circuit rejected the jury's explicit finding in Special Verdict No. 10 that N.A. Sales' breach was indeed "substantial and material," and held that the issue of whether N.A. Sales' breach of its distributorship agree-

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[4]It is black-letter law that a party's duties under a contract are contingent upon the absence of any material breach by the other party: "[I]t is a condition of each party's remaining duties to render performances to be exchanged under an exchange of promises that there be no uncured material failure by the other party to render any such performance due to an earlier time." Restatement (Second) of Contracts §237 (1979). Chapman's affirmative defense asesrted that N.A. Sales' failure to use its "best efforts" constituted such a breach.

ment was material could be determined by the court without reference to the jury's findings.[5] The court did not purport to apply the standard necessary to enter a judgment notwithstanding the verdict.

The Second Circuit's decision is in direct conflict with the Fifth Circuit's recent holding in *Hensley* v. *E.R. Carpenter Co.*, 633 F.2d 1106 (5th Cir. 1980). In *Hensley*, plaintiff claimed that his employer breached its employment contract with him. Plaintiff asked for damages stemming from the breach and for a declaration that he was no longer bound by a restrictive covenant contained in the employment contract. The employer counterclaimed for an injunction enforcing the restrictive covenant. Although plaintiff requested a jury trial, the district court first held a hearing on the employer's equitable counterclaim and entered a preliminary injunction against the plaintiff. Soon thereafter, the district court made the injunction permanent and granted summary judgment in favor of the employer on all of plaintiff's claims.

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[5] The only authority cited in the Second Circuit's opinion is *Nolan* v. *Sam Fox Publishing Co.*, 499 F.2d 1394, 1397 (2d Cir. 1974). Nothing in *Nolan* remotely supports the proposition that the materiality of a contract breach is a question of law for the court to decide. In *Nolan*, a suit by a composer seeking to rescind his assignment of a copyright to defendants, the district court, sitting as finder of fact in a bench trial, held that the record did not establish a substantial breach warranting rescission. The court of appeals affirmed, stating that the trial court's factual finding that there were insufficient grounds for rescission was not "clearly erroneous." 499 F.2d at 1397-98.

Moreover, unlike the situation in *Nolan*, the materiality of N.A. Sales' breach went not only to Chapman's arguably equitable counterclaim, but also to Chapman's affirmative defense to N.A. Sales' own claims. Even if N.A. Sales' breach did not warrant rescission under Chapman's counterclaims, the jury's verdict that the breach was substantial should have controlled N.A. Sales' claims on the merits.

The Fifth Circuit reversed. Holding that the employer plainly had breached the employment contract to some extent, the court focused on the issue of the materiality of that breach: "[Plaintiff] is entitled to rescission and thus avoidance of the restrictive covenant only if the breach was 'vital,' i.e., 'material.'" 633 F.2d at 1109-10. The court then explicitly held that the "[m]ateriality of a breach is ordinarily a question of fact" and stated that, therefore, the materiality of the employer's breach was "an open question that should be resolved by the trier of fact on remand." 633 F.2d at 1110. The court proceeded to emphasize the critical nature of plaintiff's right to a jury trial on the issue of materiality:

> [Plaintiff] requested a jury trial when he first filed his suit. Even in a diversity case, the allocation of decision-making between a court and a jury is governed by federal law. . . . Under federal law, the right to have a jury determine issues of fact turns essentially on whether the claim to which those issues relate is legal or equitable. . . . The court below held a hearing in order to decide [the employer's] counterclaim for specific performance, an equitable action, and thus decided all issues of fact itself. It is well established, however, that if a party asserts a legal claim, he is entitled to a jury determination of the factual issues related to that claim even if those issues also relate to equitable claims brought by that party or equitable counterclaims brought by the opposing party. . . . Thus, [plaintiff] must be afforded a jury as the trier of fact for his legal claims.

633 F.2d at 1110 n.5 (citations omitted).

The Second Circuit's decision in this case is diametrically opposed to that in *Hensley*. As *Hensley* notes, the only way that a factual issue can be removed from the province of the jury is through a directed verdict or judgment notwithstanding the verdict. 633 F.2d at 1110 n.5. The Second Circuit here made no finding that the standards

for judgment notwithstanding the verdict as to the materiality issue had been met, nor did the trial court attempt to justify its decision on that basis. Indeed, the high standards for judgment notwithstanding the verdict could not possibly have been met in this case given strong evidence of N.A. Sales' breach presented at trial.[6] The Second Circuit simply decided the materiality issue "as a matter of law." (App. A at 5.)

In making this legal determination, the Second Circuit not only disregarded the holding of *Hensley*, but also the holding of other courts of appeals and the common law. *See, e.g., National Gas Appliance Corp.* v. *Manitowoc Co.*, 311 F.2d 896, 899 (7th Cir. 1962) ("The resolution of the [rescission] issue depends upon whether the representations made by plaintiff as to its financial situation and Chamberlin's participation were sufficient causes for rescission. Those are jury questions."); *Allied Equipment Co.* v. *Weber Engineered Products, Inc.*, 237 F.2d 879, 883 (4th Cir. 1956) ("[T]he jury . . . should determine whether Allied faithfully and efficiently carried out its part of the business. If not, damages because of termination of the arrangement should not fall on Weber."); *Coxe* v. *Mid-America Ranch & Recreation Corp.*, 40 Wis. 2d 591,

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[6] For example, Chapman introduced into evidence an N.A. Sales brochure which advertised N.A. Sales' own automotive anti-theft devices but which contained not a single reference to Chapman products. A private investigator hired by Chapman testified that he attempted to purchase certain Chapman products from N.A. Sales but that an N.A. Sales' employee tried repeatedly to convince him to buy an alternative product. And two officers of Chapman testified that N.A. Sales' performance in marketing Chapman products was, in terms of dollar sales, far below that of other distributors of Chapman products.

162 N.W.2d 581, 583 (1968) ("Whether or not a provision in a given contract is material to the contract would ordinarily be a question of fact.").[7]

## II.

## THE COURT OF APPEALS' APPROVAL OF THE TRIAL COURT'S DEVICE OF WAITING UNTIL THE JURY'S FINDINGS WERE RETURNED BEFORE DECIDING WHETHER HE WOULD CONSIDER THEM AS BINDING OR ADVISORY DIRECTLY CONFLICTS WITH A DECISION OF THE COURT OF APPEALS FOR THE SIXTH CIRCUIT, IMPAIRS THE RIGHT TO TRIAL BY JURY, AND ENCOURAGES INEFFICIENT ADMINISTRATION OF FED. R. CIV. P. 39(a).

In its opinion, the Second Circuit tacitly approved the district court's practice of tendering the case to the jury, and then, after the jury's findings were revealed, disregarding certain of those findings, not on a judgment NOV standard but on a theory that empanelling the jury on some issues had been error *ab initio*. (App. A at 4-5.) In so doing, the court came into direct conflict with the decision of the United States Court of Appeals for the Sixth Circuit in *Hildebrand* v. *Board of Trustees of Michigan*

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[7] Illinois, the state whose law controls the contract in this case by the contract's own terms, applies this same common law rule. *Sampson* v. *Marra*, 343 Ill. App. 245, 98 N.E.2d 523, 528 (Ill. App. Ct. 1951) ("It is established that a party may terminate or rescind a contract because of substantial non-performance or breach by the other party. . . . Ordinarily the determination of what constitutes failure of substantial performance is an issue for the trier of Fact.").

*State University*, 607 F.2d 705 (1979). The court also set a precedent which undermines the efficient administration of Fed. R. Civ. P. 39(a).

Rule 39(a) provides that, when a jury demand properly has been filed, the trial of all issues encompassed within that demand shall be by jury unless the Court "upon motion or of its own initiative finds that a right of trial by jury of some or all of those issues does not exist under the Constitution or statutes of the United States."

This Court previously has considered the question of when, and upon what basis, a Rule 39(a) determination must be made. In *Curtis* v. *Loether*, 415 U.S. 189 (1974), the question was whether that determination should be made by reference to the relief sought in the pleadings or by a review of the record and consideration of the claims remaining at the time of trial. At that time this Court concluded that it need not express a view on that question. 415 U.S. at 196 n.11.[8]

An important question which was not raised in *Curtis*, but which is squarely raised here, is whether the judicial determination under Rule 39(a) that a party is not entitled to a jury trial on an issue properly may be withheld until *after* the trial is underway. Such a procedure

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[8] The issue left undecided by this Court in *Curtis* continues to engage the lower courts and engender conflict among the circuits. *See* discussion in *Hildebrand*, *supra*, 607 F.2d at 709-10, which notes that then-Judge Stevens' view as expressed in *Rogers* v. *Loether*, 467 F.2d 1110, 1118-19 (7th Cir. 1972), *aff'd sub nom. Curtis* v. *Loether*, 415 U.S. 189 (1974), that the pleadings should govern the right to jury trial, is "too strict." The court in *Hildebrand* stated that its view is in accord with a number of other circuits which have indicated that a Rule 39(a) determination should be made on the basis of "all the record and not just the pleadings." *See Kerr-McGee Corp.* v. *Bokum Corp.*, 453 F.2d 1067, 1071-72 (10th Cir. 1972); *Klein* v. *Shell Oil Co.*, 386 F.2d 659, 663-64 (8th Cir. 1967).

significantly impairs the rights of parties to effectively present their case and results in inefficient administration of district court proceedings.

That is the precise holding of the Sixth Circuit in *Hildebrand*. That case involved claims by a university professor that his academic appointment had not been renewed in retaliation for his exercise of first amendment rights and that the university procedures which were followed concerning his reappointment denied him due process. Plaintiff sought reinstatement, back pay and compensatory and punitive damages. Both he and defendant filed timely requests for a jury trial.

At no time during the pretrial proceedings was the issue of the propriety of a jury trial raised by any party. The case was tried before a jury for approximately five days. Both sides presented their evidence; neither side moved for a directed verdict at any point. After both sides rested but before the jury was instructed, the district court, on the court's own motion, questioned whether a jury was appropriate. The court noted that plaintiff's claims were both legal and equitable, but concluded that the proof adduced by plaintiff in support of his legal claims was insufficient and indeed "frivolous." On that basis, the court concluded that the submission of plaintiff's case to a jury had been in error, that the case sounded solely in equity and would not be submitted for a jury verdict after all. Nevertheless, the court tendered to the jury four special interrogatories and treated the jury's findings as advisory under Fed. F. Civ. P. 39(c).

In its review of this convoluted proceeding, the Sixth Circuit reversed, condemning the trial court's "bait and switch" tactic of submitting proof to the jury and then declaring the case a bench trial:

> In effect the district court held that if damages claims cannot survive a motion for directed verdict, then it is proper to abort a jury trial and convert the proceedings into a bench trial.
>
> We think that considerations of fundamental fairness and judicial economy militate against that view. Any good trial lawyer will testify that there are significant tactical differences in presenting and arguing a case to a jury as opposed to a judge. To convert a trial from a jury trial to a bench trial (or vice-versa) in the middle of the proceedings is to interfere with counsel's presentation of their case and, quite possibly, to prejudice one side or the other. Further, it is a waste of the additional time and money which is inherent to a jury trial.

607 F.2d at 710. *Accord Pradier* v. *Elespuru*, 641 F.2d 808, 811 (9th Cir. 1981) ("There are frequently significant tactical differences in presenting a case to a court, as opposed to a jury. The parties are entitled to know at the outset of the trial whether the decision will be made by the judge or the jury.").[9]

What the Second Circuit did in the instant case was to approve a procedure by which the district court may empanel a jury and then conclude at the close of days of evidence-taking and deliberation that, because his opinion differed from the jury's, no jury should have been empaneled in the first place. This formula is unacceptable for three reasons.

First, it flatly contradicts the well-reasoned ruling in *Hildebrand*. Second, it is an extremely inefficient use

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[9] Other courts have recognized that fundamental fairness requires that a Rule 39(a) determination be made prior to the taking of evidence. *See, e.g., Ford* v. *C.E. Wilson & Co.*, 30 F. Supp. 163, 166 (D. Conn. 1939) ("I apprehend, however, that if this is to be done the parties are entitled to advance notice to that effect. . . . [T]he ruling may not in fairness to the parties be deferred until the trial is under way."); *but see Larsen* v. *Powell*, 16 F.R.D. 322, 328 (D. Colo. 1954).

of juries. Trial judges should not be permitted to believe that they can empanel juries and then—after the jury's verdict has been returned—declare that the right to jury trial never existed. Third, failure to make a Rule 39(a) determination until after the jury's findings have been revealed cannot help but cast doubt on the integrity of the fact-finding process.[10]

This Court's Rule 17(a) has recognized that those cases in which a federal court of appeals has "so far departed from the accepted and usual course of judicial proceedings, or so far sanctioned such a course by a lower court, as to call for an exercise of this Court's power of supervision," deserve special consideration in the granting of petitions for certiorari. Petitioner submits that the Second Circuit's approval of the jury bait and switch in this case constituted precisely such a departure.

The situation presented by the Second Circuit's opinion is not unlike that presented to this Court in *Fitzgerald* v. *United States Lines*, 374 U.S. 16 (1963). There, plaintiff, a seaman, brought a federal court action seeking recovery for personal injuries, both under the Jones Act, 46 U.S.C. § 688 (which provides for a jury trial) and under a "maintenance and cure" theory which traditionally is tried without a jury. A jury was empaneled and rejected plaintiff's Jones Act claims. The district court deter-

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[10] The trial court's conduct in this case exemplifies the abuse which is possible. He confessed during the jury's deliberations that "[w]hen we started this trial, I said I wasn't sure as to whether the parties were entitled to a trial by jury. But it was safer that I take the verdict, because if it were advisory and I agreed with the verdict, I could adopt the finding and, if I disagreed with it, I could reject it." (Tr. 1984.) That is, of course, precisely what he did. He disenfranchised the jury only after he disagreed with their findings.

mined the "maintenance and cure" action himself, although the proof in support of both claims was essentially the same. This Court granted certiorari in order to decide whether plaintiff should have been entitled to a jury trial on his maintenance and cure claim. *See* 371 U.S. 932.

In explaining its reason for granting certiorari in the *Fitzgerald* case, this Court emphasized the requirement that there be one trier of fact in a case:

> Where, as here, a particular mode of trial being used by many judges is so cumbersome, confusing and time consuming that it places completely unnecessary obstacles in the paths of litigants seeking justice in our courts, we should and do not hesitate to take action to correct the situation. Only one trier of fact should be used for the trial of what is essentially one law suit to settle one claim split conceptually into separate parts because of historical developments.

374 U.S. at 21.[11]

Similar questions of efficiency and common sense are raised here, and require the grant of certiorari.

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[11] Indeed, this Court ruled in *Fitzgerald* that, even where the jury found against the plaintiff on his damage claims, plaintiff nonetheless was entitled to have the jury determine all those facts common to the legal and equitable matters raised. Contrary to Judge Mishler's holding in this case (App. B at 16-17), the existence of proven damage claims is not a condition precedent to a party's right to have a jury determine all factual issues relating to claims at law. 374 U.S. at 21-22.

## CONCLUSION

For these reasons a writ of certiorari should issue to review the judgment and opinion of the Second Circuit.

Respectfully submitted,

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Dated: February 22, 1983

**APPENDIX A**

# In the
# United States Court of Appeals

FOR THE

SECOND CIRCUIT

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At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the 22nd day of November, one thousand nine hundred and eighty-two.
Present:

HONORABLE WILFRED FEINBERG
Chief Judge
HONORABLE HENRY J. FRIENDLY
HONORABLE JAMES L. OAKES
Circuit Judges

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N.A. SALES COMPANY, INC.,
Plaintiff-Appellee,

- against - 82-7321

CHAPMAN INDUSTRIES CORP.,
Defendant-Appellant.

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Appeal from the United States District Court for the Eastern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Eastern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged and decreed that the judgment of said District Court be and it hereby is AFFIRMED.

Chapman Industries Corp. appeals from a decision of the United States District Court for the Eastern District of New York, Jacob Mishler, J., dated March 23, 1982, awarding N.A. Sales Company, Inc. a declaratory judgment, injunctive relief and $124,000 in damages against Chapman. On March 23, 1972, N.A. Sales entered into a formal contract (the Agreement) with Chapman under which N.A. Sales was given a 20-year exclusive distributorship in the New York metropolitan area for vehicular anti-theft devices made by Chapman Industries. In return, N.A. Sales agreed not to sell any other vehicular anti-theft product not made by Chapman. The Agreement was modified by a December 21, 1972 letter from Chapman which stated, in part, that N.A. Sales was permitted to sell other vehicular anti-theft products that were not similar in design to the "Chapman Kar-Lok". The Agreement continued in force until early January 1981. At that time, Chapman informed N.A. Sales that the Agreement would be terminated unless monies that Chapman claimed were owed by N.A. Sales were paid "immediately" and unless a previously discussed Letter of Credit was forwarded to Chapman within five days.

The same day, N.A. Sales sued Chapman, claiming that Chapman had breached the 1972 distributorship agreement between the parties, and seeking damages and injunctive relief. In April 1981, Chapman counter-claimed, alleging, inter alia, breach of contract and unfair competition on the part of N.A. Sales, and seeking damages, injunctive relief and a declaratory judgment. In the in-

terim, on January 15, 1981, Judge Mishler issued a temporary restraining order against Chapman, directing it to comply with the terms of the Agreement. In March 1981, after an evidentiary hearing, the judge granted a preliminary injunction to the same effect. This order was affirmed by this court in October 1981. Meanwhile, in June 1981, Judge Mishler adjudged Chapman guilty of contempt for violating the January 1981 temporary restraining order, but reserved the issue of penalty until the trial on the merits. Chapman's appeal from the contempt order was dismissed by this court in November 1981. After the trial on the merits, which is discussed below, Judge Mishler refrained from imposing any fine for Chapman's past conduct, but ordered it to pay specified fines for any future violation of the permanent injunctive order the judge had just entered.

The trial on the merits of N.A. Sales' claims and Chapman's counter-claims was held in December 1981 before Judge Mishler and a jury. The jury returned a special verdict, finding that N.A. Sales was entitled to $125,000 damages for Chapman's breach of the Agreement by selling Chapman products to customers within N.A. Sales' exclusive area of distribution, by failing to use its best efforts to supply products ordered, and by deliberately and intentionally delaying the shipment of products ordered by N.A. Sales. The jury also found that N.A. Sales did not breach the Agreement by failing to obtain a sufficient line of credit, but did find that N.A. Sales owed Chapman $10,000 for merchandise past due and $1,000 for pallet charges. The jury also found that N.A. Sales did not use its best efforts in the sale of Chapman products other than the Chapman Kar-Lok, but that N.A. Sales had used its best efforts to sell and distribute the Chapman Kar-Lok.

After the jury's special verdict, since the case involved both legal and equitable claims, Judge Mishler proceeded to determine the rights of the parties in accordance with the special jury verdict and applicable law. The judge agreed with the jury's award to N.A. Sales of $125,000 in damages, minus $1,000 for pallet charges. However, Judge Mishler also held that, as a matter of law, the jury's finding that N.A. Sales owed Chapman $10,000 for merchandise past due was unsupported by the record. Finally, Judge Mishler held that he was not bound by the jury's special verdict with respect to N.A. Sales' alleged failure to use its best efforts to sell Chapman products other than the Kar-Lok since the remedies Chapman sought on the relevant claims were equitable and there was no proof of damages. Under these circumstances, the judge regarded the jury verdict as only an advisory one. The judge went on to hold that Chapman failed to sustain these claims by a fair preponderance of the credible testimony, and alternatively, that N.A. Sales' activities complained of were not the result of deliberate behavior. The judge then entered a permanent injunction ordering Chapman to perform all the terms and conditions of the Agreement, as modified by the December 21, 1973 letter. Chapman appeals from this order.

In light of Judge Mishler's careful and comprehensive opinion dated March 23, 1982, we believe that the only issue on appeal that merits discussion is whether the judge erred in holding that he was not bound by the jury's finding that N.A. Sales did not use its best efforts in the sale and distribution of Chapman products other than the Kar-Lok. Chapman claims that under Dairy Queen v. Wood, 369 U.S. 469 (1962) and kindred cases, this issue was for the jury to decide, not the judge. We believe that it is unnecessary to resolve this question because on this record

Judge Mishler's refusal to find that N.A. Sales did not substantially and materially breach the Agreement was correct as a matter of law. It is true that in answering interrogatory 10(a) the jury found that N.A. Sales failed to use its best efforts in the sale and distribution of Chapman products other than the Kar-Lok. However, in answering interrogatory 11(a), the jury found that N.A. Sales *had* used its best efforts in the sale and distribution of the Kar-Lok. Sale of the latter product constituted a very large percentage of the sales of N.A. Sales. Moreover, under the December 21, 1973 letter from Chapman to N.A. Sales referred to above, N.A. Sales had the right to sell other anti-theft products and did so. Under the circumstances, with so much of its efforts spent in the sale and distribution of products in accordance with the Agreement, failure of N.A. Sales to use its remaining best efforts for the sale and distribution of Chapman's other products was not a sufficiently significant breach to justify termination of the distributorship. See Nolan v. Sam Fox Publishing Co., Inc., 449 F.2d 1394, 1397 (2d Cir. 1974).

We have considered all of appellant's other claims and, substantially for the reasons stated by Judge Mishler, find them to be without merit.

*/s/ Wilfred Feinberg*
WILFRED FEINBERG,
Chief Judge

*/s/ Henry J. Friendly*
HENRY J. FRIENDLY,

*/s/ James L. Oakes*
JAMES L. OAKES,
Circuit Judges.

**APPENDIX B**

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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N. A. SALES COMPANY, INC., Plaintiff,

- against -

CHAPMAN INDUSTRIES CORP., Defendant.

CV 81-0070

Memorandum of Decision and Order

March 23, 1982

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APPEARANCES:

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MISHLER, District Judge

Plaintiff instituted this suit on January 7, 1981 claiming that defendant had breached a 1972 distributorship agreement between the parties and seeking damages and injunctive relief. On January 15, 1981 the court issued a

temporary restraining order which was modified by order dated March 12, 1981, directing defendant to comply with the terms of the agreement. After an evidentiary hearing the court issued a preliminary injunction on March 27, 1981, *aff'd*, ..... F.2d ..... (2d Cir. 1981).

In December 1981 a trial on the merits was held. The court submitted the issues, whether denominated "legal" or "equitable," to the jury. Fed.R.Civ.P. 39(c); *Sheila's Shine Products, Inc.* v. *Sheila Shine, Inc.*, 486 F.2d 114, 122 (5th Cir. 1973); *Dawson* v. *Contractors Transport Corp.*, 467 F.2d 727, 730, 734 (D.C.Cir. 1972). The jury returned a special verdict on a form submitted by the court. (A copy of the Special Verdict is appended hereto.) The court now turns to the task of determining the rights of the parties considering the jury's verdict in accordance with the discussion following.

## I. *The Pleadings*

### (a) *The Complaint*

The complaint states a single claim against defendant Chapman Industries Corp. ("Chapman").[1] It alleges the execution of an agreement dated March 23, 1972 granting plaintiff N.A.Sales Company, Inc. ("N.A.Sales") the exclusive right to distribute a patented security device for motor vehicles known under the tradename of Chapman Kar-Lok, as well as other auto security devices manufac-

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[1] The complaint against Anthony Joseph Pellicano and David Arlasky, executive vice president and president of the defendant corporation, for maliciously inducing the corporate defendant to breach its contract with plaintiff was dismissed on jurisdictional grounds.

tured by Chapman.[2] The complaint (par.8) alleges that defendant has continually delayed the filling and shipment of orders, refused to ship orders placed by plaintiff, insisted upon the payment by plaintiff of charges waived by defendant, imposed unreasonable credit arrangements as a condition to such shipments, cancelled agreed upon credit arrangements and threatened to cancel the contract between the parties. The complaint prays for declaratory judgment, an injunction directing specific performance and money damages.[3]

(b) *The Counterclaims*

Chapman's answer includes four counterclaims:

The first counterclaim prays for damages for plaintiff's breach of the agreement in its failure to pay for goods delivered; failure to obtain a letter of credit to guarantee such payments and its misrepresentation that it had done so; and failure to use its best efforts to promote defendant's products. The second counterclaim prays for money damages for plaintiff's intentional misrepresentation that it had obtained a letter of credit from Chemical Bank upon which defendant could draw, which caused defendant to its detriment to continue to do business with

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[2] A copy of the agreement is appended hereto. Also appended hereto is a letter to plaintiff from Chapman dated December 21, 1973, permitting the plaintiff to "sell other anti-theft products as long as they are not similar design to the Chapman Kar-Lok Patent No. 3538725."

[3] The injunctive relief is phrased in language of preliminary injunctive relief. The request may fairly be interpreted as one for permanent injunctive relief. The court issued a preliminary injunction order dated March 27, 1981 directing that Chapman perform the March 23, 1972 agreement.

plaintiff. The third counterclaim is for money damages and injunctive relief based on plaintiff's unfair competition in "palming off" its inferior anti-theft device as Chapman's Total Protection System. Finally, the fourth counterclaim is for damages and injunctive relief based on the use by plaintiff of the trademark (or tradename) Chapman on products not manufactured by Chapman. Chapman also requests a declaratory judgment declaring the agreement null and void based on the breaches of contract stated in the first counterclaim.

## II. *Discussion*

### *Trial to a Jury or to the Court*

The strong historic federal policy favoring jury trials, *Simler* v. *Conner,* 372 U.S. 221, 222, 83 S. Ct. 609, 610 (1963), requires that where issues are common to both legal and equitable claims and counterclaims in a single action the court defer to the prior determination by the jury before deciding the equitable claim. *Ross* v. *Bernard,* 396 U.S. 531, 537-38, 90 S. Ct. 733, 738 (1970), *Dairy Queen, Inc.* v. *Wood,* 369 U.S. 469, 82 S. Ct. 894 (1962), *Beacon Theatres, Inc.* v. *Westover,* 359 U.S. 500, 511, 79 S. Ct. 948, 957 (1959). *Dawson* v. *Contractors Transport Corp.,* 467 F.2d at 733. However, "the right of trial by jury, considered as an absolute right does not extend to cases of equity jurisdiction. If it be conceded or clearly shown that a case belongs to this class, the trial of questions involved in it belongs to the court itself, no matter what may be its importance or complexity." (citation omitted). *Katchen* v. *Landy,* 382 U.S. 323, 86 S.Ct. 467, 477 (1966); *National Union Electric Corp.* v. *Wilson,* 434 F.2d 986, 988 (6th Cir. 1970). In classifying issues or claims as either legal or equitable we look to the traditional or his-

torical manner of viewing them and the remedy sought.[4] *Dimick* v. *Schiedt*, 293 U.S. 474, 476 55 S. Ct. 296, 297 (1935); *Baltimore & Carolina Line, Inc.* v. *Redman*, 295 U.S. 654, 55 S. Ct. 890 (1935).

We now turn to the claims of the parties to consider which issues were properly tried to the jury, and the bases for the jury verdict of those issues properly before it, and to decide those issues tried to the court.

A. *Chapman's Counterclaims*

1. *Chapman's First and Second Counterclaims. The Jury's Verdict Finding N.A.Sales Indebted as of January 7, 1981 For Merchandise Then Past Due*

The issues presented to the jury on defendant's first and second counterclaims, i.e., monies due for goods sold and delivered are clearly legal. The issues in those counterclaims are unrelated to the issues in the third and fourth counterclaims and the claim that N.A.Sales failed to use best efforts to sell Chapman products.

N.A.Sales Company, Inc. ("N.A.Sales") is a domestic corporation organized under the laws of the State of New York doing business under the firm and style name of E & H Sales Company at 42-02 215th Street, Bayside, in the County of Queens, City and State of New York. It is in the business of selling motor vehicle anti-theft devices to new car dealers, auto accessories dealers, agencies and organizations that engage in the business of installing such devices. Edwin Hershberg and Howard Hershberg

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[4] *Ross* v. *Bernard*, *supra*, 396 U.S. at 539, 90 S. Ct. at 738, suggests the practical abilities and limitations of juries as a further test.

are the sole stockholders, officers and directors of N.A. Sales. They hold the same stock interest and positions in E & H Auto Services, Inc., which corporation is engaged in the installation of auto-theft devices for the general public at 210-01 Northern Boulevard, Bayside, Queens. Until 1979 N.A.Sales did business at the 210-10 Northern Boulevard address.

Chapman Industries Corp. ("Chapman"), the successor corporation to Chapman Performance Products, Inc., is a corporation organized under the laws of the State of Illinois with offices at 2638 United Lane, Elk Grove Village, Illinois, and engaged in the business of manufacturing a patented motor vehicle anti-theft device known as the Chapman Kar-Lok and other anti-theft devices.

The Hershbergs were actively engaged in the business of installing burglar alarm systems and anti-theft devices for automobile dealers or selling such devices since 1962. In 1969 they came upon an advertisement featuring the Chapman Kar-Lok. At that time there was little or no public recognition of the Chapman Kar-Lok in the New York Metropolitan area. N.A.Sales soon became a customer of Chapman. The Hershbergs embarked on a campaign to publicize the Chapman Kar-Lok in the trade. They visited automobile dealers and demonstrated the effectiveness of the lock; they visited insurance companies and convinced some companies that the lock was superior to competing products. Insurance carriers came to recommend the lock to their assured. At that time and until 1975, the only anti-safety device manufactured by Chapman was the Kar-Lok. The efforts of the Hershbergs were reflected in the purchase of locks from Chapman. In 1970 N.A.Sales purchased approximately 20,000 locks from Chapman. Sales of the lock increased in 1971. N.A.Sales

also continued to purchase and install anti-theft devices, including alarm systems, not manufactured by Chapman. N.A.Sales purchased approximately 30% of Chapman's production.

The informal relationship which proved to be highly advantageous to both N.A.Sales and Chapman soon blossomed into a formal relationship of manufacturer and sole distributor in an agreement executed on March 23, 1972. The agreement (appended hereto) gave N.A.Sales the sole and exclusive right to sell and distribute the patented device known as "Chapman Kar-Lok" in the area described for a period of 20 years (Paragraphs 1 and 2). N.A.Sales agreed not to sell any "anti-theft device of any nature or type, manufactured or distributed by any other company but Chapman" (Paragraph 5). Since at that time Chapman manufactured only the Kar-Lok, it was an agreement that looked to the future in the event Chapman manufactured other anti-theft devices, i.e., burglar alarms.

On December 21, 1973, David Arlasky (then general manager of Chapman) confirmed an agreement he had made with Howard Hershberg in which he states, *inter alia,*

> Paragraph 5 - Page 3 - 4th line, this line should read: anti-theft device of *the* nature or type. The word *the* replaces the word *any*. It is odd that none of us had noticed that our attorney inadvertently wrote the wrong word and none of us caught the mistake. In other words you may sell other anti-theft products as long as they are not similar design to the Chapman Kar-Lok patent No. 3538725.

We therefore have an agreement for an exclusive distributorship for the Chapman Kar-Lok as described in patent No. 3538725, and an exclusive distributorship for

other Chapman anti-theft products without a concomitant obligation on behalf of N.A.Sales to sell only auto-theft devices manufactured by Chapman "as long as they are not similar [sic] design to the Chapman Kar-Lok."

Sales of Chapman Kar-Loks increased yearly. In 1980 N.A.Sales' gross income was approximately $2,000,000. Of this sum approximately 85% or $1,700,000 represented the sale of Chapman products. The increase in the sale of Chapman products made it difficult for N.A.Sales to pay "within three (3) days after delivery to Distributor" (Paragraph 6). In early 1974 Arlasky agreed to modify the terms of payment to thirty (30) days in lieu of the three (3) day period and N.A.Sales agreed to an increase of 50 cents in the unit price of the Kar-Lok.[5] The terms of payment were further modified by letter dated January 18, 1979 from Chapman to N.A.Sales providing for payment within thirty-seven (37) days from date of invoice (See Tr.p.1483).

From November 1978[6] N.A.Sales paid for the merchandise delivered by Chapman by mailing a check to Chapman in the amount invoiced, less freight charges (paid to the common carrier by N.A.Sales upon delivery of the merchandise) less credit memos (issued by Chapman for defective merchandise), less overcharges based on im-

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[5] The March 23, 1972 agreement did not reflect that the shorter period was consideration for a 50 cent reduction in the then current price of the Kar-Lok.

[6] The court fixes this date as the commencement of employment of Sally Cohen by Chapman as its "full charge bookkeeper." There is evidence that this method of billing and settling the account for each delivery by N.A.Sales paying by check accompanied by an advisory specifying credits was the practice since March 1972. Edwin Hershberg testified that the practice started in 1974. (Tr.p. 261). Sally Cohen testified to receiving such advisories.

proper price increases,[7] accompanied by a memo, described as an advisory explaining the deductions. N.A.Sales placed three to four orders a month. From November, 1978 to January 7, 1981 (the date of the commencement of this action), N.A.Sales sent Chapman between 75 and 100 checks for merchandise accompanied by advisories showing each deduction.

On January 31, 1979, at N.A.Sales' request, Chapman by letter advised N.A.Sales that their books reflected that N.A.Sales had received merchandise in the invoiced amount of $66,713.55, none of which was past due. The books and records of Chapman (ledger sheets) showed these sums were paid subsequent to January 31, 1979.

In October 1980, Anthony Pellicano called Edwin Hershberg and advised him that Chapman claimed the sum of $26,838.96 (based on a report in the form of a letter dated March 31, 1980 addressed to N.A.Sales by Gerald Lenza but never mailed).[8] Pellicano subsequently on or about October 9, 1980 sent a computer printout showing $16,512.07 due based on Lenza's report. Though Pellicano testified that the computer printout was based on Chapman's

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[7] The increased price schedule was not effective unless Chapman gave thirty (30) days prior written notice. Not more than one price increase was permitted in any six (6) month period (Par.7). Chapman at times billed at prices in violation of this limitation. At no time did Chapman justify the increase by proof showing that the increase was "based solely upon increased costs of material and labor" as required under Paragraph 7.

[8] The hearsay statement was admitted on consent of plaintiff's attorney. It refers to invoices from January 9, 1979 to October 25, 1979. It challenges deductions set out in N.A.Sales advisories relating to credits for freight charges, credit memos, and overcharges due to increases in price that were not effective at the time the merchandise was ordered or delivered.

books and records, the books and records discredit that testimony.[9] Chapman's records credited all the items claimed by N.A.Sales for the period from January 9, 1979 to October 25, 1979, and according to the records no sums were due Chapman. The computer printout which was offered at the trial as a summary of the corporate books of account was not supported by the corporate records and therefore of no evidentiary value.

Since the issue of sums due under the contract is a legal issue, we would normally be bound by the jury's determination that N.A.Sales was indebted to Chapman in the sum of $10,000 as of January 7, 1981 for merchandise delivered and past due. (Answers to Interrogatories 6 and 7(a)). The only evidence supporting the finding was the computer printout (Exh. EE). We vacate the findings since "after viewing all the evidence most favorably to plaintiff, we cannot say that the jury could reasonably have returned the verdict in its favor." *Durham Industries, Inc.* v. *The North River Insurance Company*, ..... F.2d ..... Nos.81-7305, 81-7395 (2d Cir. Feb. 23, 1982).

2. *Chapman's Third and Fourth Counterclaims*

Chapman's third and fourth counterclaims are for equitable relief and damages based on unfair competition and trademark infringement.[10] These claims are tied to

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[9] Sally Cohen (Tr. pp.1488-1489). Pellicano initially stated that he based his claim on Lenza's unmailed letter dated March 3, 1980 (Pellicano Tr. p.710).

[10] The third and fourth claims incorporate by reference claims for monies due under the contract which are unrelated to the unfair competition and trademark infringement claims. Even were we to sustain the jury's findings, Chapman would not be entitled to the relief requested under the third and fourth claims. See discussion.

the claim that N.A.Sales failed to use its best efforts to sell Chapman products. An action for injunctive relief for unfair competition and trademark infringement is equitable in nature. *See Sheila's Shine Products, Inc.* v. *Sheila Shine, Inc., supra,* 486 F.2d at 121-22;[11] *Crane Co.* v. *American Standard, Inc.,* 490 F.2d 332, 344-45 (2d Cir. 1973). *Coca Cola Co.* v. *Cahill,* 330 F.Supp. 354 (W.D. Okla. 1971), *Robine* v. *Apco, Inc.,* 227 F.Supp. 512, 517 (S.D.N.Y. 1964), *aff'd,* 386 F.2d 267 (2d Cir. 1967). So too an action for specific performance where the only adequate relief against continued threatened breaches is injunctive relief directing specific performance of the terms of the contract is equitable. *Owens-Illinois, Inc.* v. *Lake Shore Land Co., Inc.,* 610 F.2d 1185, 1189 (3rd Cir. 1979). Although Chapman included a prayer for damages on these claims so as to cast upon them the character of legal claims, Chapman did not offer any proof that the alleged activities of plaintiff either caused damage or any proof as to the amount of damages. For this reason the issue was not submitted to the jury. The right to a jury trial is lost where no proof of damages is offered at trial. *See Robine* v. *Apco, Inc., supra,* 227 F.Supp. at 517, *citing Shulin* v. *United States District Court,* 313 F.2d 250 (9th Cir.), *cert. denied,* 373 U.S. 946, 83 S. Ct. 1539 (1963).[12]

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[11] The court stated: "The right of trial by jury does not extend to cases historically cognizable in equity." (citations omitted)

[12] *Lee Pharmaceuticals* v. *Mishler,* 526 F.2d 1115 (2d Cir. 1975), is not to the contrary. The court there held that since the counterclaim sought damages for trademark infringement and the allegations of the counterclaim were based on "the same factual circumstances" defendant was entitled to a jury trial on all the issues. The court did not discuss the effect of the failure of defendant to offer proof of damages. *See Anti-Monopoly, Inc.* v. *General Mills Fun Group,* 611 F.2d 296, 307 (9th Cir. 1979).

Accordingly, the court treats the jury verdict as it bears on the issues in the third and fourth counterclaims and on the claim of failure to use best efforts as advisory and for the reasons stated below rejects it. *Hyde Properties* v. *McCoy*, 507 F.2d 301, 306 (6th Cir. 1974).

Chapman bases its right to injunctive relief (which means termination of the March 23, 1972 agreement) in its unfair competition and trademark infringement claim as follows:

1. N.A.Sales failed to use its best efforts in promoting the sale and distribution of Chapman products in that N.A.Sales
   (a) refused to purchase Chapman Total Protection System,
   (b) failed to use the fuse and failed to use the improved fuse described as a resistor fuse (RF 507) manufactured by Chapman for the Kar-Lok.
   (c) Promoted the sale of its own burglar alarm system (KT-300) to the detriment of the Chapman Alarm System.
2. N.A.Sales palmed off the KT-300 alarm system as a Chapman product (Defendant's post-trial brief at p.10 *et seq.*).[13]

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[13] Neither Chapman's letter of January 7, 1981 nor Chapman's letter of January 14, 1981 based the right to terminate on these grounds. In any event under the facts of this case as described *infra*, the cited grounds would not constitute a sufficient basis for termination of the contract. Recission of a contract is authorized only where " 'the complaining party has suffered breaches of so material and substantial a nature that they affect the very essence of the contract and serve to defeat the object of the parties.' " *Affiliated Hosp. Prod., Inc.* v. *Merdel Game Mfg. Co.*, 513 F.2d 1183, 1186 (2d Cir. 1975) *quoting Nolan* v. *Williams Music Co.*, 300 F. Supp. 1311, 1317 (S.D.N.Y. 1969), *aff'd sub nom., Nolan* v. *Sam Fox Publishing Co., Inc.*, 499 F.2d 1394 (2d Cir. 1974).

*The Kar-Lok*

The Kar-Lok prevents the theft of a vehicle in two ways. One, it consists of a lock assembly at the hood which is triggered by pressing and turning a key into a cylindrical lock held in a bracket at the dashboard. A cable attached to the lock causes a slide bolt to enter a hood bracket. This dead bolt makes it virtually impossible to lift the hood of the vehicle. Two, it disables the ignition system by diverting the electrical energy produced by the ignition coil through a resistor fuse and electric wiring grounds the current. Since the current does not reach the spark plugs of the engine, the firing power is lost.

*The Chapman Burglar Alarm*

The burglar alarm consists of a sensing module (DA 1110) that is attached to the battery which, with an attempt to open the door or hood of a vehicle, receives signals which in turn sets off a siren (SR 515).

*The Total Protection System*

The total protection system is nothing more than the combination of the Kar-Lok and the burglar alarm.

As we previously noted, until 1975, the only anti-theft device manufactured by Chapman was the Kar-Lok. Chapman never considered the resistor fuse as an integral part of the patented device. Though necessary to the functioning of the lock, it was considered, like connecting wires, an item that could readily be purchased on the open market.[14] Chapman did not insist on the purchase of the re-

[14] The fuse could be purchased in any electric supply store at the retail price of about 70 cents to 90 cents (about 20 cents wholesale). Chapman's price was about $2.00 to $2.50.

sistor fuse in connection with the purchase of the Kar-Lok. The version that was generally available on the open market was substantially of the same quality and effectiveness as the Chapman resistor fuse.[15] N.A.Sales did not offer an item in competition with or similar in design to the Chapman Kar-Lok.

In 1975 N.A.Sales was faced with the obligation of using its best efforts to sell and distribute the Chapman burglar alarm system and the right to market a competitive alarm system, i.e., E & H Sales KT-300. Eighty-five percent of N.A.Sales business was then in Chapman products; of the Chapman product sales a small percentage—approximately 5% was Chapman alarms. It appears that the E & H Sales KT-300 outsold the Chapman alarm by 3 to 1. The price differential was $35 to $40. Chapman offered no evidence that the larger volume of sales was attributable to the lack of effort by N.A.Sales.[16] The dealers who install

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[15] The resistor fuse (both the former version (RF 507) and the current version (RF 500)) has limited use. It cannot be used in vehicles that are powered by Diesel engines and many General Motors and Chrysler cars. In 1975 Chapman circulated a bulletin advising "this part (RF 507) must be ordered separately since not all cars require this protection." (Exh. 172).

[16] We do not overlook the brochure (Exh.RR) advertising E & H Sales anti-theft devices which did not include Chapman products. That exhibit demonstrates nothing more than the exercise of N.A. Sales' right to sell competitive products.

We recognize the difficult problems generated by the apparent conflict implicit in acting as the sole distributor of the Chapman alarm system while exercising the right granted by Chapman to deal in a competitive alarm system. N.A.Sales can further demonstrate its best effort to sell Chapman products by inscribing a legend on all the letterheads and invoices of N.A.Sales and E & H

(footnote continued)

burglar alarms seem to be divided as to whether the Chapman Burglar Alarm is worth the higher price. We need not decide that issue.

We come to the claim that N.A.Sales has palmed off its KT-300 alarm as a Chapman product based on the testimony of Michael Caruso, manager of the County Auto Instrument, an installer of anti-theft devices, William Hall, president of Gateway Ford, a new car dealer and Thomas M. Tolan, a private investigator. Caruso testified that every KT-300 contained two decals with the legend "Chapman Kar-Alarms" (Exh. GG); he conceded that the carton in which the KT-300 is delivered was stamped "E & H Sales" and the invoice did not describe the alarm as a Chapman product. He further stated that when Chapman products were purchased, the invoice showed that it was a Chapman product. Hall testified in a similar vein. On December 21, 1981, Tolan went to the premises of E & H Auto Services at 210-01 Northern Boulevard, Bayside, Queens. He saw Mark Harris, the co-manager of the E & H facility and told Harris that he was interested in installing a Chapman Total Protection System. Harris told Tolan that the Chapman Total Protection System would cost $35 more than the one he was recommending, i.e., the KT-300. Harris installed the KT-300.[17] The invoice for the installa-

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(footnote continued)

Sales as follows:

> We are the exclusive distributors of the Chapman Kar-Lok, Chapman car alarm and Chapman Total Protection System in the Metropolitan area.

All newspaper advertisements and circulars advertising the KT-300 or any other alarm system should also note the availability of the Chapman products.

[17] Though Tolan was advised by Harris that the Chapman system which was not installed would cost $35 more, Tolan nevertheless asked him whether he installed the Chapman Total Protection System to which Harris answered in the affirmative.

tion described it as a Chapman Total Protection System. Harris had clearly advised Tolan that the Keyless alarm system he recommended was not a Chapman product (Tr. pp. 1698, 1703).

The thorough investigation conducted by Chapman including the services of a private investigator after the trial had commenced produced meager evidence on a claim of widespread unfair competition and trademark infringement. Of the hundreds of customers of N.A.Sales, including many new car dealers, defendant offered only Caruso and Hall. Plaintiff offered: Richard Carlin (Auto After Market Systems), Samuel Gottlieb (Fordham Auto Radio), Michael DeMetrion (D & D Glass Company). No testimony was elicited from these witnesses indicating that N.A.Sales indulged in any of the practices to which Caruso and Hall alluded.

I find Chapman failed to sustain the third and fourth claims by a fair preponderance of the credible testimony. Alternatively, I find that assuming the truth of the testimony of Caruso and Hall, the practice of placing decals in KT-300 cartons was not deliberate and procedures have been adopted by N.A.Sales in or about September 1980 to remove the likelihood of recurrence. I credit Tolan's testimony but find that under all the circumstances there was no intention either to represent the KT-300 alarm system as a Chapman product or as part of the Chapman Total Protection System. The incident is attributable to a careless misdescription of the type of installation.

(b) *Plaintiff's Claim*

The plaintiff's claim for damages and for injunctive relief stands on a different footing. The claim for damages specifies various breaches of the contract, i.e.,

(a) Sold Chapman Products to N.A.Sales customers in the exclusive area of distribution;

(b) failed to use its best efforts to supply N.A.Sales with Chapman products in the quantity ordered;

(c) deliberately and intentionally delayed shipment of products ordered by N.A.Sales.

The issue is common to the claim for equitable relief. The court is bound by the jury determination finding that Chapman breached the March 23, 1972 agreement in the ways and manner above indicated. The record reveals the inadequacy of damages and the need for injunctive relief to protect the plaintiff's rights under the contract.

The relationship between N.A.Sales and Chapman was one in which both enjoyed the benefits of sale and distribution of Chapman products from the time the distributorship was established, when the March 23, 1972 contract was entered into, and until approximately October 1972. Arlasky had retained Pellicano occasionally in 1979 and 1980 as a consultant on security matters. In about April 1980, Pellicano became executive vice president with authority to "Run the company" (Tr. p.702). Soon thereafter he initiated a program on behalf of Chapman to establish distributors of Chapman products in various parts of the country. Chapman inserted an advertisement in the trade publication Automotive News, soliciting inquiries from dealers and distributors. It brought about 100 responses. At Pellicano's direction each response was answered over the signature of Michael S. Panzarella, National Sales Manager, inviting the inquirer to place orders directly with Chapman. Pellicano was fully aware of the restrictions placed on such sales within the area described in the March 23, 1972 agreement. He specifically directed Panzarella to answer the inquiry of Eastern Auto Sound of Ronkonkoma,

a customer of N.A.Sales, with the statement, "Don't worry about it. They [N.A.Sales] did have an exclusive. Send the letter."[18] Pellicano, faced with a roadblock to the expansion of his marketing program, used demands for payment of goods not yet due, (Tr. pp.336-339), made a baseless claim that a letter of credit was not in proper form and misused the letter of credit by attempting to draw against it at a time when no invoices for merchandise were due, in an attempt to establish a basis for terminating the contract.[19] N.A. Sales placed orders for merchandise on November 21, 1980, December 3, 1980, December 16, 1980 and December 29, 1980. Chapman refused to deliver the merchandise though it knew it was under an obligation to do so. Hershberg's telephone calls to Chapman first inquiring about the reason for non-delivery and then pleading for delivery were unanswered. As of January 1, 1981, N.A.Sales' inventory normally at a level of $85,000 to $100,000 (at cost to N.A.Sales) was at about $2,000. Chapman had not shipped any merchandise since November 28, 1980.

On January 7, 1981 Chapman advised N.A.Sales by letter and telegram (Exh. 61) that unless "a letter of credit with the agreed designated language" was delivered within five days and "all monies owed to Chapman Industries [is] paid immediately . . . it [will be] necessary to

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[18] It is not clear as to whether any additional letters soliciting direct sales were sent to other business entities within N.A.Sales' exclusive distributorship area.

[19] On December 5, 1980, Pellicano, referring to the Eastern Auto Sound solicitation, falsely wrote N.A.Sales' counsel, "I had no idea or any knowledge of any negotiations between Eastern Auto Sound and Chapman Industries until I received the letter of November 4, 1980 . . . ."

terminate your distributorship for cause effective midnight, Tuesday, January 12, 1981." Though it was impossible to comply with Chapman's technical objections to the letter of credit, Edwin Hershberg made an effort to comply with Chapman's (Pellicano's) demand (Tr. pp. 354-358). A letter and telegram dated January 14, 1981 from Chapman to N.A.Sales advised N.A.Sales that "the March 23, 1972 distributorship agreement is hereby terminated for cause effective immediately."

On January 13, 1981 this court issued a temporary restraining order and on March 27, 1981 after an evidentiary hearing, issued a preliminary injunction.

In March 1981, N.A.Sales was still experiencing difficulty in obtaining merchanidse. At that time Chapman, under the direction of Pellicano, mailed approximately 300 letters to dealers in N.A.Sales' exclusive selling area, pointing out the difficulty in being "unable to purchase genuine Chapman Auto Security Products" and advising that "Chapman Industries is now allowing interested dealers to purchase Chapman products direct. . . ." (Exh. 65). The letter went to about 200 customers of N.A.Sales. Chapman received about 50 inquiries.

There is a strong likelihood that unless Chapman is enjoined from committing violations of the March 23, 1972 contract the breaches will continue. N.A.Sales will be irreparably damaged through such violations.

*Decision*

N.A.Sales has established its right to declaratory judgment affirming its right as the sole distributor of the Chapman Kar-Lok in the area described in paragraphs 2 and 3 of the March 23, 1972 agreement and the execlusive right to sell and distribute the Chapman alarm system and any other anti-theft devices manufactured by Chapman

as provided in paragraph 5. N.A.Sales is not required to purchase the resistor fuse as part of the Chapman Kar-Lok. N.A.Sales is not required to purchase the Chapman Total Protection System as a single unit as marketed by Chapman. N.A.Sales, however, is required to use its best efforts to offer the Chapman alarm system and the Chapman Total Protection System; it may purchase the various components comprising the Chapman Total Protection System individually, i.e., the alarm system and the Kar-Lok.

The KT-300 marketed by N.A.Sales under the trade name E & H Sales KT-300 is not similar in design to the Chapman Kar-Lok; and the method of offering for sale to dealers and installers does not violate Chapman's trademark nor does it unfairly compete with the Chapman alarm system.

Chapman has violated the terms of the March 23, 1972 contract in the ways, manners and respects found by the jury. There is a likelihood that Chapman will continue to violate the agreement unless a permanent injunction issues directing specific performance.

N.A.Sales is entitled to judgment for damages caused by such breaches in the amount of $125,000 (Special Verdict 2) less pallet charges due Chapman in the amount of $1,000 (Special Verdict 4) in the net amount of $124,000 together with interest computed from January 6, 1982.

This memorandum of decision contains findings of fact and conclusions of law required under Rule 52 of the Fed.R.Civ.P.

A judgment in accordance with this memorandum of decision is made and filed simultaneously herewith.

*/s/ Jacob Mishler*
U. S. D. J.

## APPENDIX C

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

N.A. SALES COMPANY, INC.,

Plaintiff,

-against- : COMPLAINT

CHAPMAN INDUSTRIES CORP., ANTHONY JOSEPH PELLICANO and DAVID ARLASKY,

Defendants.

Plaintiff, N.A. SALES COMPANY, INC., by its attorney, DAVID HALPERIN, P.C., complaining of the defendants, respectfully alleges:

### AS AND FOR A FIRST, SEPARATE AND DISTINCT CAUSE OF ACTION AGAINST DEFENDANT, CHAPMAN INDUSTRIES CORP.

1. At all times hereinafter mentioned, plaintiff was and still is a corporation organized and existing pursuant to the laws of the State of New York, having its principal office for the transaction of business in the City of New York, County of Queens and State of New York, at 42-05 215th Street, Bayside, New York. Plaintiff is in the business of the sale and distribution of auto security devices to car dealers and installation centers.

2. Upon information and belief, at all times hereinafter mentioned, defendant, CHAPMAN INDUSTRIES CORP., was and still is a corporation organized and existing pursuant to the laws of the State of Illinois, having its principal office for the transaction of business at 2638 United Lane, in the City of Elk Grove Village, Illinois (hereinafter referred to as "CHAPMAN"). CHAPMAN was heretofore known as and by the name Chapman Performance Products, Inc. Defendant, CHAPMAN, is in the business of the manufacture, and sale of auto security devices and, specifically, a patented device known as the Chapman Kar-Lok to sellers and distributors thereof, including plaintiff, N.A. SALES COMPANY, INC.

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C., Section 1332, by reason of the fact that the parties are of diverse citizenship and the amount in controversy, exclusive of interest and costs, exceeds the sum of Ten Thousand ($10,000.00) Dollars. Venue is proper in this District pursuant to 28 U.S.C., Section 1391.

4. Plaintiff has heretofore and for a period of more than ten years purchased auto security devices and components thereof, including the Chapman Kar-Lok, from defendant, CHAPMAN. During this period of time, the value of the purchases by plaintiff from defendant, CHAPMAN, have exceeded 5 million dollars.

5. On March 23, 1972, plaintiff and defendant, CHAPMAN, entered into an agreement wherein defendant, CHAPMAN, appointed plaintiff as its exclusive distributor in the Metropolitan New York City Area, which was defined for the purpose of said agreement as a area encompassing a fifty mile radius from the Empire State Building, as well as Suffolk County in its entirety, of the Chap-

man Kar-Lok and other auto security devices referred to therein, which agreement was for a period of twenty (20) years from the date thereof, all as set forth in said agreement, a copy of which is annexed to this complaint as Exhibit "A" and forms a part hereof, and which will hereinafter be referred to as "The Agreement".

6. Since the exectuion of The Agreement, plaintiff has ordered millions of dollars worth of auto security devices from defendant, CHAPMAN, the sale of which product constitutes the large percentage of plaintiff's business, and plaintiff has adhered at all times to the letter and spirit of The Agreement, since the date of The Agreement and to the date of this complaint. In reliance upon The Agreement and in reliance upon defendant CHAPMAN's anticipated performance of its obligations thereunder, plaintiff has made a huge and sizeable investment in plaintiff's business and has energetically and to the extent of its resources, sold the product produced by defendant, CHAPMAN. Plaintiff's business has increased each year since the inception of The Agreement and at the present time employs twenty (20) persons and sells a large volume of auto security devices from which plaintiff receives sizeable profits.

7. Until approximately five months ago, plaintiff and defendant, CHAPMAN, enjoyed a satisfactory and profitable relationship in the exercise of their obligations pursu ant to The Agreement. In accordance with The Agreement, plaintiff continued to order auto security devices from plaintiff, which for the year 1980 averaged approximately Eighty Five Thousand ($85,000.00) Dollars per month, and defendant, CHAPMAN, continued to fill said orders a reasonable time after receipt, in accordance with financial arrangements that had been developed between

plaintiff and defendant, CHAPMAN, satisfactory to each of them.

8. Since in or about August, 1980, defendant, CHAPMAN, has embarked on a course of conduct wherein defendant, CHAPMAN, has continually breached The Agreement. Specifically, defendant, CHAPMAN, has continually threatened to refuse to fill orders for auto security devices placed by plaintiff with defendant, CHAPMAN; defendant, CHAPMAN, has continually delayed the filing and shipment to plaintiff of said orders, and, finally, defendant, CHAPMAN, has since on or about December 14, 1980 refused to ship any auto security devices to plaintiff. Further, defendant, CHAPMAN, has arbitrarily threatened to cancel, and, upon information and belief, has cancelled credit arrangements between plaintiff and defendant, CHAPMAN, theretofore agreed upon, and has, in addition, threatened to impose harsh, unnecessary, arbitrary and unreasonable credit arrangements upon plaintiff as a condition precedent to the further shipment of auto security devices by defendant, CHAPMAN, to plaintiff. Further, defendant, CHAPMAN, has insisted upon the payment by plaintiff of charges to plaintiff, which defendant, CHAPMAN, previously agreed to waive and which defendant, CHAPMAN, in fact waived, as a pre-condition to the shipment of said product. In addition, defendant, CHAPMAN, has, upon information and belief, attempted to sell auto security devices directly to third parties doing business in plaintiff's assigned area of distribution, in complete breach and violation of The Agreement.

9. Upon information and belief, defendant, CHAPMAN, has engaged in other acts and conduct, at this time unknown to plaintiff, which are completely in violation of and in breach of the obligations of defendant, CHAPMAN, pursuant to The Agreement.

10. Upon information and belief, the aforesaid acts and conduct on the part of defendant, CHAPMAN, were and are designed to make it impossible for plaintiff to continue its sizeable and profitable business aforedescribed, and in fact to put plaintiff out of business, or, in the alternative, to force plaintiff to accede to modifications to The Agreement, favorable to defendant, CHAPMAN, and unfavorable to plaintiff, which defendant, CHAPMAN, has heretofore suggested it desires, although it has not divulged to plaintiff the details thereof.

11. At the present time, defendant, CHAPMAN, has failed and refused, and continues to fail and refuse, to ship auto security devices to plaintiff and to fill orders made by plaintiff to defendant, CHAPMAN therefor. By reason of said failure and refusal on the part of defendant, CHAPMAN, plaintiff's inventory of auto security devices has become completely depleted and plaintiff has been unable to fill orders made by its customers to plaintiff, and unless defendant, CHAPMAN, is made and required to ship auto security devices to plaintiff and to fill plaintiff's orders therefor within the next five (5) days, plaintiff will be required to discontinue its business; to close its doors, and to terminate its business existence.

12. By reason of the foregoing, plaintiff has already sustained immediate and irreparable damage, and will continue to sustain irreparable damage to its business and livelihood, which cannot be adequately redressed by an action for damages, unless defendant, CHAPMAN, is required to immediately commence delivery of product to plaintiff, to fill orders heretofore made by plaintiff, and which orders plaintiff will continue to deliver to defendant, CHAPMAN, in the future.

13. Plaintiff stands ready to make payment for said product in accordance with The Agreement, in accordance with payment provisions heretofore adopted by plaintiff

and defendant, CHAPMAN, or in accordance with any reasonable provisions for payment that may be deemed just and proper by this Court and imposed by this Court.

## AS AND FOR A SECOND, SEPARATE AND DISTINCT CAUSE OF ACTION AGAINST DEFENDANTS, ANTHONY JOSEPH PELLICANO AND DAVID ARLASKY

14. Plaintiff repeats, reiterates and realleges each and every allegation of paragraphs "1" through "13", as if same were fully set forth herein at length.

15. Upon information and belief, defendant, ANTHONY JOSEPH PELLICANO, was and still is a resident of the State of Illinois, and is Executive Vice President of defendant, CHAPMAN.

16. Upon information and belief, defendant, DAVID ARLASKY, was and still is a resident of the State of Illinois, and is the President of defendant, CHAPMAN.

17. Upon information and belief, defendants, ANTHONY JOSEPH PELLICANO and DAVID ARLASKY, acting in concert, have, for their profit and gain, maliciously and without legal justification or excuse, induced defendant, CHAPMAN, by its acts and conduct aforedescribed, to breach and violate The Agreement with plaintiff.

WHEREFORE, plaintiff demands judgment as follows:

(a) That this Court enter a judgment declaring that the agreement between plaintiff and defendant, CHAPMAN, dated March 23, 1972, has been breached and violated by the acts and conduct of defendant, CHAPMAN, as complained of hereinbefore, and further declaring that defendants, ANTHONY JOSEPH PELLICANO and DAVID ARLASKY, have induced said breach and violative conduct.

(b) That a preliminary injunction be granted pending the trial of this action on the merits,

(i) requiring defendant, CHAPMAN, to sell auto security devices, including the Chapman Kar-Lok and any other product sold by defendant, CHAPMAN, to plaintiff and to continue to ship and deliver said auto security devices and other products to plaintiff in quantities ordered by plaintiff within a reasonable time after orders for said product are placed by plaintiff and transmitted to defendant, CHAPMAN, in accordance with shipment arrangements heretofore adhered to, pursuant to payment and credit arrangements heretofore adhered to between plaintiff and defendant, CHAPMAN;

(ii) Enjoining defendant, CHAPMAN, from selling auto security devices or any other product covered by the agreement between plaintiff and defendant, dated March 23, 1972, to persons, firms or corporations other than plaintiff, in the area of plaintiff's exclusive distributorship as defined in the said agreement, and that defendant, CHAPMAN, be required to specifically perform the agreement, dated March 23, 1972, between plaintiff and defendant, CHAPMAN;

(iii) Enjoining defendant, ANTHONY JOSEPH PELLICANO, and defendant, DAVID ARLASKY, from inducing defendant, CHAPMAN, to breach or violate the agreement, dated March 23, 1972, between plaintiff and defendant, CHAPMAN.

(c) That pending the hearing upon the preliminary injunction and notice of same, as required by law, a temporary restraining order issue, restraining defendants, CHAPMAN, ANTHONY JOSEPH PELLICANO and DAVID ARLASKY, as aforesaid.

(d) That plaintiff have judgment against all defendants for the sum of Five Million ($5,000,000) Dollars.

(e) That plaintiff be granted such other, further or different relief as to the Court shall seem just, proper and equitable.

DAVID HALPERIN, P.C.
Attorney for Plaintiff

By /s/ *David Halperin*
David Halperin

Office & P. O. Address
18 East 48th Street
New York, New York 10017
(212) 935-2600

EXHIBIT A

# AGREEMENT

THIS AGREEMENT made the 23rd day of March, 1972, by and between CHAPMAN PERFORMANCE PRODUCTS, INC., a corporation organized and existing pursuant to the laws of the State of Illinois, and having its principal office for the transaction of business at 5567 Elston Avenue, Chicago, Illinois (hereinafter referred to as the "Company"), and N. A. SALES COMPANY, INC., a corporation organized and existing pursuant to the laws of the State of New York, and having its principal office for the transaction of business at 210-01 Northern Boulevard, Bayside, Queens, New York (hereinafter referred to as "Distributor");

## WITNESSETH:

WHEREAS, Chapman is in the business of the manufacturing of automotive anti-theft devices; and

WHEREAS, the Distributor is in the business of distributing such devices; and

WHEREAS, Chapman and the Distributor desire to enter into an agreement for the purpose of permitting Distributor to distribute said devices in the areas hereinafter set forth pursuant to the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of Ten Dollars ($10.00) and other good and valuable consideration each to the other in hand paid, receipt of which is hereby acknowledged, Chapman and the Distributor agree as follows:

1. Chapman represents that it is the owner of United States patent for the manufacture of a device known as "Chapman Kar-Lok" under Patent No. 3,538,725 issued

on November 10, 1970, by the United States Patent Office.

2. Chapman hereby grants to the Distributor the exclusive and sole right to sell and distribute to the general public and others the foregoing device in the metropolitan New York City area (defined for the purpose of this agreement as an area encompassed in a fifty-mile radius from the Empire State Building as well as Suffolk County in its entirety) for a period of twenty (20) years from the date hereof. Chapman and the Distributor acknowledge the existence of franchise agreements between Chapman Security Products, Inc., an Illinois corporation, and certain persons for the Counties of Nassau, Westchester and Suffolk in the State of New York and for the Counties of Bergen and Essex in the State of New Jersey. It is agreed that this exclusive distributorship shall apply to the foregoing territories subject to the said franchise agreements, as, if and when the said franchise agreements terminate.

3. Chapman shall not, during the term of this agreement, allow any other individual, partnership or corporation or other entity to operate within the exclusive distributorship area hereinbefore set forth, recognizing that the Distributor has the exclusive right to promote and sell the foregoing device within said area.

4. Chapman further grants to Distributor for a period of six (6) months from the date hereof, an exclusive right to establish distributorships in the Baltimore-Washington, D. C., marketing area and in the Miami, Florida, and Atlanta, Georgia, marketing area. The marketing areas shall be defined as the said cities including the metropolitan trading areas around said cities. The establishment of a distributorship shall be defined for the purpose of this agreement as the hiring and operation of a sales force in each of said marketing areas. In the event a distributorship is not so established in any of the said marketing

areas within six (6) months from the date hereof, then and in that event and as to said marketing area only, the exclusive right set forth in this paragraph shall be deemed terminated. Should said distributorship be established as defined herein, same shall continue as an exclusive distributorship for a period of three (3) years, beginning six (6) months from the date hereof, and shall continue for successive periods of three (3) years, subject to Distributor using its best efforts during each three (3) year period to sell said product. In the event Distributor shall at any time not use its best efforts in the distribution of the product, and upon three (3) months' notice to Distributor by Chapman, the distributorship shall, after said period, terminate in every respect. It is understood and agreed that the foregoing exclusive distributorships shall be exclusive only as to the "Chapman Kar-Lok."

5. So long as there exists an exclusive distributorship in any market as hereinbefore defined, Distributor agrees that it will not in said market sell any other automotive, vehicular or motorcycle anti-theft device of any nature or type, manufactured or distributed by any other company but Chapman. Chapman agrees that it will sell to Distributor all other (other than the Chapman Kar-Lok) automotive, vehicular or motorcycle anti-theft device of any nature or type produced by it, on an exclusive basis in said market areas, except that Chapman shall at all times be entitled to mass merchanides said items through chains. As to the foregoing other divices, Chapman agrees that same shall be sold to the Distributor at the lowest price available to any other person or firm distributing same.

6. It is understood and agreed that the Chapman Kar-Lok will be sold to the Distributor at a price of Ten Dollars and Twenty-Five Cents ($10.25) per unit, including

charges for freight on all orders of two gross or more. The foregoing price and terms is predicated upon payment being made within three (3) days after delivery to Distributor.

7. Chapman agrees that the foregoing price will not be increased for a period of six (6) months from the date hereof. After six (6) months from the date hereof, Chapman may increase the price per unit once only in each six (6) month period, based solely upon increased costs of material and labor, and Chapman shall provide said proof of such increases. By the foregoing, the parties intend that any increase shall not exceed Chapman's increase in cost of labor and material in producing the Kar-Lok device. Chapman will give the Distributor thirty (30) days prior written notice of any increase together with said documentation justifying the proposed increase.

8. In the event of the termination of any exclusive distributorship referred to hereinbefore, for cause, Distributor agrees that it shall not for a period of two (2) years from date of termination distribute or sell in the exclusive Distributor area any automotive, vehicular or motorcycle anti-theft device of any nature or type.

9. This agreement shall be construed pursuant to the laws of the State of Illinois and this contract is executed in Chicago, Illinois.

10. Chapman agrees that it will at all times use its best efforts to supply the Distributor with the devices to be distributed hereunder in the quantity ordered and in the highest possible quality. Chapman agrees that the Distributor shall have the right to furnish and distribute all types of sales and promotional aids of the product being sold at Distributor's sole cost and expense in the

distribution area. Chapman agrees to supply the Distributor with whatever sales aids are available relative to the product to be distributed hereunder.

IN WITNESS WHEREOF, the parties have set their hands and seals the day and year first above written.

CHAPMAN PERFORMANCE PRODUCTS, INC.

By */s/ Robert W. Chapman*
Robert W. Chapman, President

ATTEST:

*/s/ David Arlasky*
David Arlasky, Secretary

N. A. SALES COMPANY, INC.

By */s/ Howard Hershberg*
Howard Hershberg, President

ATTEST:

*/s/ David Halperin*
David Halperin, Assistant Secretary

STATE OF ILLINOIS )
) SS
COUNTY OF COOK )

On the 23rd day of March, 1972, before me personally came ROBERT W. CHAPMAN, to me known who, being by me duly sworn, did depose and say that he resides at 2800 North Lake Shore Drive, Chicago, Illinois, that he is the President of Chapman Performance Products, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation; and that he signed his name thereto by like order.

*/s/ Emily C. Meseis*
Notary Public

STATE OF ILLINOIS )
) SS
COUNTY OF COOK )

On the 23rd day of March, 1972, before me personally came DAVID ARLASKY, to me known who, being by me duly sworn, did depose and say that he resides at 3241 River Falls Drive, Northbrook, Illinois, that he is the Secretary of Chapman Performance Products, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation; and that he signed his name thereto by like order.

*/s/ Emily C. Meseis*
Notary Public

STATE OF ILLINOIS )
) SS
COUNTY OF COOK )

On the 23rd day of March, 1972, before me personally came HOWARD HERSHBERG, to me known who, being by me duly sworn, did depose and say that he resides at 182-30 Wexford Terrace, Jamaica Estate, Queens, New York, that he is the President of N. A. Sales Company, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation; and that he signed his name thereto by like order.

*/s/ Emily C. Meseis*
Notary Public

STATE OF ILLINOIS )
) SS
COUNTY OF COOK )

On the 23rd day of March, 1972, before me personally came DAVID HALPERIN, to me known who, being by me duly sworn, did depose and say that he resides at 776 Palisade Avenue, White Plains, New York, that he is the Assistant Secretary of N. A. Sales Company, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation; and that he signed his name thereto by like order.

*/s/ Emily C. Meseis*
Notary Public

## APPENDIX D

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

N.A. SALES COMPANY, INC.,

Plaintiff,

- against -

CHAPMAN INDUSTRIES CORP., ANTHONY JOSEPH PELLICANO and DAVID ARLASKY,

Defendants.

81 Civ. 0070 (JM)

ANSWER AND COUNTERCLAIMS

Defendants Demand a Trial By Jury

Defendant, Chapman Industries Corp., by its attorneys, Kornstein Meister & Veisz, for its answer alleges:

### FIRST CAUSE OF ACTION

1. Denies knowledge or information sufficient to form a belief as to the truth of the allegations of paragraph 1 of the complaint except admits that plaintiff is in the business of the sale and distribution of auto security devices.

2. Admits the allegations of paragraph 2 of the complaint, except denies that it was heretofore known as and by any other name.

3. Denies the allegations of paragraph 3 of the complaint except admits that plaintiff purports to base jurisdiction and venue on the statutes recited.

4. Denies the allegations of paragraph 4 of the complaint except admits that for a period of approximately ten years, plaintiff purchased auto security devices and components thereof, including the Chapman-Lok, from defendant Chapman Industries Corp. and Chapman Performance Products, Inc.

5. Denies the allegations of paragraph 5 of the complaint, except admits that plaintiff and Chapman Performance Products, Inc. entered into an agreement on or about March 23, 1972 (the "Agreement"). Defendant refers the Court to the text of the Agreement for its terms.

6. Denies the allegations of paragraph 6 of the complaint except admits that since the execution of the Agreement, plaintiff has ordered auto security devices from Chapman Performance Products, Inc. and from defendant Chapman Industries Corp.

7. Denies the allegations of paragraph 7 of the complaint except admits that defendant Chapman Industries Corp. filled orders received from plaintiff within a reasonable time after receipt.

8. Denies the allegations contained in paragraph 8 of the complaint.

9. Denies the allegations contained in paragraph 9 of the complaint.

10. Denies the allegations of paragraph 10 of the complaint.

11. Denies the allegations of paragraph 11 of the complaint, except denies knowledge or information sufficient to form a belief as to the truth of the allegations concerning plaintiff's inventory.

12. Denies the allegations of paragraph 12 of the complaint.

13. Denies knowledge or information sufficient to form a belief as to the truth of the allegations of paragraph 13 of the complaint.

## SECOND CAUSE OF ACTION

14 - 17. No response is necessary because the Court has dismissed the Second Cause of Action.

## FIRST AFFIRMATIVE DEFENSE

18. The complaint fails to state a claim upon which relief can be granted.

## SECOND AFFIRMATIVE DEFENSE

19. The Court lacks jurisdiction over the person of Chapman Industries Corp.

## THIRD AFFIRMATIVE DEFENSE

20. Venue in this District is improper.

## FOURTH AFFIRMATIVE DEFENSE

21. Defendant Chapman Industries, Inc. is not a party to the contract upon which plaintiff has sued.

## FIFTH AFFIRMATIVE DEFENSE

22. Defendant Chapman Industries Corp. is an Illinois corporation engaged in the business of manufacturing automotive security and anti-theft devices. One of Chapman's products, the Chapman-Lok, is patented and its name registered as a United States trademark.

23. Plaintiff is, on information and belief, a New York corporation.

24. On or about March 23, 1972, Chapman Performance, Inc. entered into the Agreement with plaintiff whereby Chapman Performance Products, Inc. granted plaintiff an exclusive distributorship of the products of Chapman Performance Products, Inc. for the Greater New York Metropolitan area.

25. Pursuant to paragraph 6 of the Agreement, plaintiff agreed to pay for products within three days after delivery. This period was subsequently extended by mutual agreement to thirty days.

26. Paragraph 4 of the Agreement required plaintiff to use its best efforts to distribute the products.

27. Plaintiff's failure to honor the terms of the Agreement justified, pursuant to paragraph 8 of the Agreement, immediate termination of the Agreement "for cause," and paragraph 4 of the Agreement authorized termination of the Agreement with three months' notice in the event plaintiff did not use its best efforts to promote the products.

28. From the outset, plaintiff failed to abide by the Agreement's terms, and its breaches became more frequent and serious as time passed.

29. Plaintiff breached the Agreement as follows:

a. Plaintiff, despite due demand, repeatedly failed to pay for products within the time prescribed by the Agreement, and unilaterally and without permission gave itself discounts and allowances on invoices. Plaintiff was not entitled to these deductions and as a result of them, owes Chapman Industries Corp. approximately $103,000, plus interest.

b. Plaintiff knowingly misrepresented to defendant that it had opened a $100,000 letter of credit with defendant as beneficiary at the Chemical Bank, New York, New York, to act as a guarantee for the large balances that plaintiff had run up with defendant. In truth, no such letter was obtained. Instead, plaintiff opened a letter of credit with the Chemical Bank, New York, New York, in a corporate name different from the one used by it in purchasing products from defendant. As a result, the Chemical Bank has at all times refused to honor defendant's demands to draw on that letter.

c. Plaintiff has failed to use its best efforts to promote the sale of defendant's goods. Sales of defendant's products in the area covered by plaintiff have for years lagged considerably behind sales of defendant's products in other markets. On information and belief, plaintiff maintains a skeletal staff and has never aggressively marketed defendant's products.

30. Defendant has performed all of its obligations under the Agreement or has been excused or prevented from doing so by reason of acts or omissions of plaintiff.

31. As a result of the foregoing, plaintiff has materially breached the Agreement and caused Chapman to sustain money damages in the amount of $603,000.00 plus interest and to terminate the Agreement.

## SIXTH AFFIRMATIVE DEFENSE AND SECOND COUNTERCLAIM

32. Defendant repeats and realleges the allegations contained in paragraphs 22 through 31 of this answer.

33. Plaintiff, through its agents, employees and officers, knowingly and intentionally misrepresented that it had obtained a letter of credit with the Chemical Bank upon which defendant, as the beneficiary, would be able to draw if plaintiff were late in making payments to defendant.

34. In truth, plaintiff obtained no such letter of credit upon which defendant could draw.

35. Plaintiff's misrepresentation was material.

36. Defendant reasonably relied on plaintiff's misrepresentation and continued to do business with plaintiff since defendant believed that plaintiff had named it as the beneficiary of a letter of credit.

37. As a result of plaintiff's misrepresentation, defendant has sustained money damages of $19,321.76 plus interest.

38. Plaintiff's conduct, as described above, was intentional, wilfull, wanton and malicious.

## SEVENTH AFFIRMATIVE DEFENSE AND THIRD COUNTERCLAIM

39. Defendant repeats and realleges the allegations contained in paragraphs 22 through 38 of this answer.

40. Pursuant to paragraph 5 of the Agreement, plaintiff agreed not to sell any automotive, vehicular or motorcycle anti-theft devices in its market that were not manufactured by Chapman Performance Products, Inc.

41. Despite this clear language, plaintiff has sold and continues to sell automotive anti-theft devices not manufactured by Chapman Performance Products, Inc.

42. Plaintiff has used these non-Chapman products (*e.g.*, motion detectors and relays) in conjunction with those manufactured by defendant to form an automotive anti-theft product that plaintiff calls a "Total Protection System."

43. This bogus "Total Protection System" is inferior to a similar anti-theft product manufactured by defendant and bearing defendant's name.

44. The box in which plaintiff sells its "Total Protection System" is designed to resemble defendant's box and contains a warranty from defendant.

45. The overall effect of plaintiff's marketing of Chapman/non-Chapman "Total Protection System" is to mislead and confuse the public into believing defendant manufactured the system.

46. Plaintiff's conduct has had the effect of deceiving consumers and of causing confusion between plaintiff's hybrid system and Chapman's products.

47. Plaintiff's conduct is a deceptive trade practice and constitutes unfair competition.

48. As a result of plaintiff's deceptive trade practice, and unfair competition, Chapman has sustained and is sustaining irreparable harm, for which it has no adequate remedy at law, and has sustained money damages in the sum of $500,000.

## EIGHTH AFFIRMATIVE DEFENSE AND FOURTH COUNTERCLAIM

49. Defendants repeat and reallege the allegations contained in paragraphs 22 through 48 of this answer.

50. One of Chapman's products, the Chapman Lok, is patented and registered as a United States trademark pursuant to 15 U.S.C. §§1051 *et seq.*

51. Plaintiff deliberately and fraudulently used the Chapman Lok trademark in connection with non-Chapman products with knowledge that its use of the trademark would cause confusion in consumers' minds and deceive them into purchasing a product that while labelled "Chapman" was not manufactured by Chapman.

52. By reason of plaintiff's use of the Chapman Lok trademark in connection with non-Chapman products, the Chapman Lok trademark has been infringed by plaintiff, in violation of 15 U.S.C. §§1111, 1114 and 1117.

53. As a result of plaintiff's trademark infringement, Chapman has sustained and is sustaining irreparable harm for which there is no adequate remedy at law, and has sustained money damages in the sum of $500,000.

WHEREFORE, defendant demands judgment as follows:

a. Dismissing the complaint;

b. On the first counterclaim, directing plaintiff to pay defendant Chapman Industries Corp. the sum of $603,000.00 in compensatory damages and declaring the Agreement terminated and null and void;

c. On the second counterclaim, directing plaintiff to pay defendant Chapman Industries Corp. the sum of $19,321.76 in compensatory damages and $500,000 in exemplary damages;

d. On the third counterclaim, directing plaintiff to pay defendant Chapman Industries Corp. the sum of $500,000 in compensatory damages;

e. On the fourth counterclaim, directing plaintiff to pay defendant Chapman Industries Corp. the sum of $500,000 in compensatory damages;

f. On the third and fourth counterclaims, restraining and enjoining, permanently and preliminarily, plaintiff, its agents, employees, or anyone acting in privity or concert with them, from selling automotive anti-theft devices not manufactured by Chapman Industries Corp. from selling non-Chapman products in conjunction with those manufactured by Chapman, and from using the Chapman-Lok trademark in connection with non-Chapman products; and

g. Awarding to defendants reasonable attorneys' fees and such other and further relief as to this Court may seem just and proper, together with the costs and disbursements of this action.

Dated: New York, New York
April 6, 1981

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